

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

1304 O STREET, Suite 200

P. O. BOX 942874

SACRAMENTO, CA 94274-0001

PHONE (916) 323-7111

FAX (916) 323-7123

TTY: 711

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February 23, 2009

Ms. Renee Wasmund, Director of Finance
San Diego Association of Governments
401 B Street, Suite 800
San Diego, CA 92101-4231

Re: San Diego Association of Governments
Audit of Indirect Cost Allocation Plan for FY 2008/2009
File No: P1190-0701

Dear Ms. Wasmund:

We have audited the San Diego Association of Governments (SANDAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2009 to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. SANDAG management is responsible for the fair presentation of the ICAP. SANDAG proposed an indirect cost rate of 55.41% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SANDAG. Therefore, we did not audit and are not expressing an opinion on the SANDAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SANDAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of SANDAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of SANDAG's Overall Work Program for fiscal year 2008/09, a review of SANDAG's single audit report for the fiscal year ended June 30, 2007, inquiries of SANDAG personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2007 and prior audit field work performed by the Department in April 2007. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation take into account the response from Renee Wasmund, Director of Finance, SANDAG dated January 22, 2009 to our draft audit finding. The Consultant concurred with our finding and recommendation.

AUDIT RESULTS

Based on audit work performed, SANDAG's ICAP for the fiscal year ended June 30, 2009 is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 55.41% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Audit Findings

Finding

SANDAG's allocation base is direct labor and fringe benefits. However, SANDAG did not include all direct labor costs in the ICAP base when performing the carryforward calculation or calculating the current ICAP rate. SANDAG excluded the time SANDAG employees charged directly to the Automated Regional Justice Information System (ARJIS) program from the carryforward and ICAP calculation.

Recommendation:

SANDAG should ensure that all direct labor costs (such as ARJIS) are included in all carryforward and ICAP calculations.

Response: SANDAG concurs with the recommendation and will include the SANDAG employees (with the exception of the ARJIS division employees) in the direct labor base in the future.

Analysis of the Response: The finding and recommendation remain the same.

This report is intended solely for the information of SANDAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 11, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Moreno, Auditor at (916) 323-7885 or Amada Maenpaa, Audit Manager, at (916) 323-7868.



MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- Tom Marez, Accounting Administrator 1, Local Program Accounting Branch, Division of Accounting
- Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- Erwin Gojuangco, Local Assistance Engineer, District 11
- Mike Kent, Associate Transportation Planner, District 11

**Metropolitan Planning Organization
San Diego Association of Governments
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the San Diego Association of Governments and approved by Caltrans.

SECTION 1: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	July 1, 2008, to June 30, 2009	55.41%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) the same costs that have been treated as indirect costs are not claimed as direct costs; (3) similar types of costs have been accorded consistent accounting treatment; and (4) the information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and (6) the estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered

by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency. The approval will also be used by Caltrans in state-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008-2009 Budgeted Indirect Costs	\$9,870,307
Carry Forward from FY 2006-2007	<u>\$ 0</u>
Estimated FY 2008-2009 Indirect Costs	\$9,870,307
FY 2008-2009 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$17,812,506
FY 2008-2009 Indirect Cost Rate	55.41%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for FY 2009 (July 1, 2008, to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State award(s) on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: San Diego Association of Governments

Signature: Renée Wasmund

Signature: Renée Wasmund

Reviewed, Approved, and Submitted by:

Renée Wasmund

Director of Finance

Date of Execution: 6/30/08

Prepared by:

Renée Wasmund

Director of Finance

(619) 699-1940

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Mary Ann Smith
Signature

Lisa Moreno
Signature

Reviewed and Approved by:

Reviewed and Approved by:

Mary Ann Campbell Smith

Name of Audit Manager

Title: Chief, External Audits

Date: 2/23/09

Phone Number: 916-323-7105

Lisa Moreno

Name of Auditor

Title: Associate Management Auditor

Date: 2/23/09

Phone Number: 916-323-7885

SANDAG Indirect Cost Rate Calculation

SANDAG		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2009
Approved Indirect Cost Rate		62.12%	51.17%	64.25%	55.19%	59.61%	64.09%	63.52%	60.95%	54.92%	51.76%	55.82%	55.50%	55.41%
INDIRECT CARRY FORWARD														
Carry Forward	\$	213,886	(281,834)	252,227	(65,506)	18,780	305,071	123,761	203,051	(410,236)	SEE NOTE	SEE NOTE	SEE NOTE	\$ SEE NOTE
Indirect Costs Per Single Audit		2,320,205	2,351,156	2,382,445	2,767,481	2,750,116	3,120,235	3,151,136	3,438,580	6,323,309	7,592,393	7,732,542	8,284,320	9,870,307
Total Indirect Costs		2,534,091	2,069,322	2,634,672	2,701,975	2,768,896	3,425,306	3,274,897	3,641,631	5,913,073	7,592,393	7,732,542	8,284,320	9,870,307
Less:														
Recovered Costs Per SANDAG	\$	2,281,864	2,134,828	2,615,892	2,386,904	2,645,135	3,222,255	3,685,133	3,710,641	5,417,645	6,621,078	7,283,630	7,841,836	Estimated Direct Salaries \$ 17,812,506
Indirect Carry Forward		252,227	(65,506)	18,780	305,071	123,761	203,051	(410,236)	(69,010)	495,428	SEE NOTE	SEE NOTE	SEE NOTE	

NOTE: The unrecovered indirect costs in FY 04 and forward were funded with SANDAG local funds; no need for 2-year carryforward

SAN DIEGO ASSOCIATION OF GOVERNMENTS
FISCAL YEAR 2009 BUDGET

	UNADJUSTED DIRECT COSTS	ADJUSTMENTS TO DIRECT COSTS	ADJUSTED DIRECT COSTS	UNADJUSTED INDIRECT COSTS	UNALLOWABLE INDIRECT COSTS	ADJUSTED INDIRECT COSTS	TOTAL ADJ. DIRECT AND INDIRECT COSTS
<u>PERSONNEL</u>							
SALARIES & WAGES	\$ 13,328,997	\$ (721,772)	\$ 12,607,225	\$ 3,961,639	-	\$ 3,961,639	\$ 16,568,864
FRINGE BENEFITS	5,465,359	(260,078)	5,205,281	1,648,968	-	1,648,968	6,854,249
SUBTOTAL	\$ 18,794,356	\$ (981,850)	\$ 17,812,506	\$ 5,610,607	\$ -	\$ 5,610,607	\$ 23,423,113
<u>NON-PERSONNEL</u>							
DIRECT PROJECT COSTS	\$670,000,000	-	\$670,000,000	-	-	-	\$670,000,000
OFFICE AND GRAPHICS SUPPLIES	-	-	-	200,800	-	200,800	200,800
POSTAGE	-	-	-	80,000	-	80,000	80,000
CONTRACTUAL SERVICES	-	-	-	452,000	-	452,000	452,000
INFORMATION SYSTEMS	-	-	-	415,000	(80,000)	335,000	335,000
TRANSPORTATION ALLOWANCE	-	-	-	54,000	-	54,000	54,000
TRAVEL	-	-	-	63,000	(20,000)	43,000	43,000
OTHER	-	-	-	122,000	-	122,000	122,000
MEMBERSHIPS AND PUBLICATIONS	-	-	-	87,000	(4,100)	82,900	82,900
RENT, FACILITIES	-	-	-	2,237,000	-	2,237,000	2,237,000
LEASE/MAINTENANCE VEHICLES	-	-	-	25,000	-	25,000	25,000
LEASE/PURCHASE OFFICE EQUIPMENT	-	-	-	140,000	-	140,000	140,000
INSURANCE	-	-	-	227,000	-	227,000	227,000
TELECOMMUNICATIONS	-	-	-	150,000	-	150,000	150,000
TRAINING PROGRAM	-	-	-	111,000	-	111,000	111,000
SUBTOTAL	\$670,000,000	\$ -	\$670,000,000	\$ 4,363,800	\$ (104,100)	\$ 4,259,700	\$ 674,259,700
TOTAL	\$688,794,356	\$ (981,850)	\$687,812,506	\$ 9,974,407	\$ (104,100)	\$ 9,870,307	\$ 697,682,813